

VZCZCXRO7427

RR RUEHAG RUEHAST RUEHDBU RUEHDF RUEHFL RUEHIK RUEHKW RUEHLA RUEHLN
RUEHLZ RUEHROV RUEHSR RUEHVK RUEHYG
DE RUEHDA #0254/01 3400812
ZNR UUUUU ZZH
R 060812Z DEC 06
FM AMCONSUL ADANA
TO RUEHC/SECSTATE WASHDC 4375
INFO RUEHAK/AMEMBASSY ANKARA 0921
RHMFIUU/39OS INCIRLIK AB TU
RUEHIT/AMCONSUL ISTANBUL 0794
RUEHZL/EUROPEAN POLITICAL COLLECTIVE
RUEHGB/AMEMBASSY BAGHDAD 0114
RUEHDM/AMEMBASSY DAMASCUS 0182
RUEHDA/AMCONSUL ADANA 0977

UNCLAS SECTION 01 OF 03 ADANA 000254

SIPDIS

SENSITIVE
SIPDIS

E.O. 12958: N/A

TAGS: [PGOV](#) [ECON](#) [PTL](#) [TU](#) [CH](#)

SUBJECT: TURKEY'S SOUTHEASTERN ENGINE KEEPS CHUGGING; NEIGHBORING
PROVINCES STILL WAITING THEIR TURN (CORRECTED COPY)

ADANA 00000254 001.2 OF 003

CORRECTED COPY SBU ADDED TO PARAGRAPHS

1. (SBU) The Southeastern Turkish city of Gaziantep is the region's model child for economic development, with a diverse, internationally competitive industrial base. Locals attribute the success to an entrepreneurial tradition, a light touch by government as well as above-average levels of smuggling and off-book activity. By contrast, the neighboring provinces of Urfa and Adiyaman are heavily dependent on the suffering agriculture sector, though they have hopes of developing more tourism. The GOT's massive SE Anatolian Project (GAP) also plays a bigger role in these provinces. There is no one-size-fits-all answer to Turkey's development needs, but it appears that in these three provinces government policy was far more effective when focused on creating stability for investors than on disruptive mega-projects. End summary.

Small - and Big - Businesses Thrive in Antep

2. (SBU) On a November 8-10 visit to Gaziantep, Urfa and Adiyaman provinces, Adana PO met with a variety of government, private-sector and NGO contacts. Gaziantep's diverse, trade-focused economy is continuing to generate growth and export numbers that are the envy of southeastern Turkey. In the first three quarters of this year, Gaziantep's exports increased by 38 percent, led by its food processing and machine-woven carpet industries. Four Organized Industrial Zones and its Free Trade Zone are engines of the success, housing about 30 percent of the city's output. Exports from the Free Trade Zone have been increasing at about 25 percent annually and now exceed \$250m.

3. (SBU) We also visited Gaziantep's biggest company, Sanko, which generates about \$500m in annual income. It is a family-owned conglomerate that has one of the largest cotton-weaving plants in the world as well as joint-ventures in heavy equipment, cement, food-processing and financial services. Sanko is one of only a few foreign companies authorized by Levi's to produce its "501" denim fabric.

What Makes Gaziantep Tick?

14. (SBU) Asked why the local economy is so robust, particularly in contrast with neighboring provinces, our contacts offered a range of explanations. Sanko CEO Abdulkadir Konukoglu attributed Gaziantep's success to the city's entrepreneurial, small-business culture in which Turks, Arabs, Jews and Armenians all lived harmoniously (at least until the last century). He added that the government's role in the region has been traditionally light. Otherwise, he noted, "the best and brightest would have aspired to be bureaucrats or to run state-owned companies. Instead they had to fend for themselves."

15. (SBU) An Adana businessman noted that Gaziantep's businessmen have a strong sense of civic loyalty, always reinvesting their earnings locally rather than moving west to Istanbul (which the Sabanci family did after early successes in Adana). Sanko is the exemplar; despite doing business throughout the world, it has kept its headquarters and most of its investments in Gaziantep and the surrounding provinces.

16. (SBU) A Gaziantep businessman and newspaper publisher, Aykut Tuzcu, said many local fortunes were ill-gotten, with black-market activity accounting for as much as 60 percent of Gaziantep's trade turnover. Tea, sugar and cigarettes are smuggled in to avoid Turkey's protectionist tariffs. Crude oil is also smuggled from Iraq and processed at small makeshift refineries. During our meeting with Gaziantep's mayor, an aide appeared with a document for his signature. He refused to sign and told us it was a bid from a local company that was clearly corrupt as it was seeking to supply fuel to the municipality for five percent below the wholesale price. Tuzcu said that a few days earlier one of the illegal refineries in the city blew up, killing three people. Tuzcu added that, though neighboring businesses and the authorities certainly know who ran the plant, its ownership is now a mystery that no one is willing to talk

ADANA 00000254 002.2 OF 003

about.

17. (SBU) While the structural, cultural and criminal explanations probably all play roles in Gaziantep's success, a business contact in Urfa offered a more straightforward analysis: "The people there are hard-working and they elect responsible, pro-business public officials."

China: The New Threat?

18. (SBU) Despite their affluence, successful businessmen in Gaziantep were alarmist in discussing China's growing role. Sanko's Konukoglu said China's government is systematically under-cutting all potential competitors in order to secure market share and put them out of business. Chinese companies use prison labor and benefit from state subsidies, he claimed. In a complaint echoed by many in the cotton trade, Konukoglu said Chinese firms routinely import cotton and then sell finished textiles for below the price they pay for the raw inputs. He noted that manufacturing sectors such as textiles take 20 years to build up and that China's goal is to destroy established industries in Turkey, the U.S. and elsewhere, leaving them dependent on China. Konukoglu urged the U.S. to restrict Chinese imports and prop up its own textile industry lest it become too dependent on Beijing. China, he and others noted, is also now entering the Turkish furniture market with extremely low priced products using European designs.

Urfa and Adiyaman: Agriculture and Top-Down Development

¶9. (SBU) Sanliurfa (Urfa), an agricultural province east of the Euphrates, has not experienced much spillover from Gaziantep's success. The head of the local Chamber of Commerce, an appliance dealer, complained that his profits had been higher during the inflationary 1990's, because he was able to get away with bigger mark-ups; now consumers have a greater expectation of price stability. A local builder, however, said that lower interest rates have benefited his industry, which appeared quite healthy with extensive residential construction in Urfa's suburbs. Local leaders also touted Urfa's tourism potential, which is focused on the ancient city of Harran and the Rizvaniye Mosque. They are particularly interested in a new international project (in which Harvard is participating), "Abraham's Path," which plans to restore ancient sites from Urfa (Abraham's birthplace) to Syria and then to Lebanon and Israel while promoting inter-faith dialogue.

¶10. (SBU) Urfa also hosts the regional headquarters of GAP (the Southeast Anatolian Project). The GAP's centrally planned, mega-project approach to development contrasts with the hands-off role that Konukoglu said accounted for Gaziantep's success. In their briefing with us, GAP representatives emphasized that, in addition to the headline hydropower projects, GAP also focuses on other sectors including highways, health and education. They noted, however, that the project's plans to use the new reservoirs to irrigate 1.8 million hectares of farmland are well behind schedule.

¶11. (SBU) Zafer Ersoy, The President of the Chamber of Commerce in Adiyaman (near the GAP's biggest project, the Ataturk dam) said that, while the hydropower was helpful for local development, the social costs of the project were exorbitant. The dam displaced about 50,000 people, most of whom were farmers clustered near the Euphrates. After leaving their homes, most moved to Adiyaman city. They received compensation in five installment (making it harder to buy property) and did not receive assistance in making the transition to urban life or alternative employment. The promises to provide irrigated land to them have not been fulfilled. Ersoy said that, based on his community's experience, he opposes additional hydropower projects that involve large-scale resettlement, such as the Ilusu dam proposal.

¶12. (SBU) Perhaps recognizing GAP's failings in addressing micro-level development needs, the current AK Party government is devoting considerable resources to building and improving roads connecting even the smallest villages with the outside world and providing villages with potable water. The Adiyaman governor said that this program has benefited 500 Adiyaman villages in recent years and that all villages are expected to

ADANA 00000254 003.2 OF 003

have water service next year.

Comment

¶13. (SBU) Gaziantep, with its entrepreneurial energy and diversified economy, is well-positioned to benefit from the market liberalization policies being pursued by the current government. Its proximity to Syria and contacts with Iraq also serve as a strong engine for business - legal and otherwise. Moving east, however, regions such as Urfa and Adiyaman are suffering from the worsening terms of agricultural trade brought on by market reforms as well as the continuing social disruptions associated with the movement of people caused by GAP-sponsored dam construction; the evacuation of thousands of villages in connection with the fight against the PKK in the 1990s has added to the strains on Turkey's SE cities. While there is certainly a need for large-scale infrastructure projects in SE Turkey (particularly to ease transport bottlenecks and ensure adequate energy), a more efficient focus for government may be to follow the Gaziantep model of creating stable conditions for small and medium sized manufacturers to develop.

